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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BSM3614 – STRATEGY
(BC100)

9 MARCH 2018
9:00AM – 12:00PM
(3 HOURS)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **FIVE (5) pages** (exclusive of cover page) only.
2. **Answer ALL questions.** All questions carry equal marks and the distribution of the marks for each question is given.
3. Please provide all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

Below are hypothetical internal and external analyses for a Strategic Position and Action Evaluation (SPACE) Matrix of a new global player in the household products industry.

Internal Analysis		External Analysis	
Financial Position (FP)		Stability Position (SP)	
Its market share grew to #25 among the top 17 countries in 2016.	4	There is an increase in competitor expansion globally from Nike and Adidas.	-2
Its EPS for 2016 is 3.76, up from 3.14 (2015) and 3.11 (2014).	4	According to the Global Congress on combating counterfeiting, 9% of all the world trade comprises counterfeit goods.	-2
It routinely earns over \$250 million in revenue per year.	6	Research shows that, by 2018, global women's purchasing power is expected to increase by \$10 trillion.	-2
Its 5-year annual sales growth rate is 25% compared to Nike's 6%.	6	Disruptive technologies could have a potential economic impact between \$14 trillion and \$33 trillion a year in 2025.	-4
It invested over \$2 billion in R&D in 2016.	5	The average inflation rate in the mostly rich-world OECD is 1.5%, down from 2.2% in 2016.	-3
Competitive Position (CP)		Industry Position (IP)	
Its European products are distributed out of the Netherlands and its products sold in Japan are distributed out of Japan.	-1	The performance apparel industry is expected to increase globally by 8.5 per cent in 2018 according to Euro Monitor International.	7
Its products are worn by some of the celebrity athletes such as Tom Brady, Michael Phelps, Andy Murray, etc.	-3	Consumers are interested in products that are made with ethical means.	7
Its products are sold in major retailers, online and in outlet stores worldwide.	-2	Children are more persuaded about products and account for 17% of industry wide apparel sales, as of 2016. Women's sales account for 28% with men around 28%.	3
Its marketing campaigns have won accolades all over the world, making it a global top 10 brand since 2015.	-2	US online purchasing in apparel-related websites topped 60 million and grew 94% over past three years.	5
Its CEO's vision is for women's products to outpace men's in revenues, and for the international revenues to be larger than USA revenues.	-2	Regulations have increased 200% since 2010 due to the voicing of different groups about harmful chemical ingredients in fabrics.	6

(a) Demonstrate your understanding of the Strategic Position and Action Evaluation (SPACE) Matrix. (5 marks)

(b) Based on the above table, do the necessary calculations and plot the SPACE graph. (Marks will be allocated for workings.) (10 marks)

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- (c) Based on your findings in (b), provide strategy recommendations for the organisation to plan for its future growth. (5 marks)

QUESTION 2 (20 MARKS)

- (a) Read the following case.

Google's Next Search Is for Housing¹

Daniel Gross, S+B BLOGS, June 20, 2017

Google is a search company, an advertising company, and, lately, an autonomous vehicle company. It's also...a real estate development company?

Google said last week that it would acquire some 300 modular prefabricated homes. Google plans to place the homes on land it controls in Mountain View and offer it to employees as temporary housing.

It's not exactly news that there is something of a crisis of affordable housing in the San Francisco and Silicon Valley area. Thanks to zoning, difficult conditions (the region is hilly and prone to earthquakes) and tradition, the housing stock in the region generally consists of tract housing or low-rise buildings. A two-decade technology boom (with a couple of busts in between) has led to a relentless rise in jobs, a growing population, immense wealth, and an uptick in the number of companies eager to stake out real estate for their offices.

You may expect workers in these lower-paying industries to have a greater need for affordable housing. But not so for staff at one of the most valuable and profitable companies out there to be in similar straits. Google could jack up wages to a level that allows workers to find the type of housing they want. Of course, that would not only eat into profits, but it would exacerbate the problem. Sending more people armed with cash into the elevated rental and home-purchase market would serve to drive prices up further, which would then require still-higher wages. (That, kids, is what the economists used to call inflation.)

There's no doubt that Google would much rather spend time, money, and other resources on things that will drive its business forward, like self-driving cars or tweaking its search algorithm. But talent-driven companies have to focus, first and foremost, on recruiting and retaining the people who will make the business succeed. For companies intent on keeping the preponderance of their operations in places where housing is expensive and scarce, real estate development may become a core competency.

Justify Google's strategy going into real estate. Complete your answer with a prior conceptual discussion of the related strategies prior to your justification.

(12 marks)

- (b) Innovation is the "specific function of entrepreneurship". It is said to be a source of competitive success, especially in turbulent and highly competitive environments. Among companies known for their innovation competencies are Apple and Google. Having

¹ <https://www.strategy-business.com/blog/Googles-Next-Search-Is-for-Housing>

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processes and structures in place through which an organisation can successfully implement its internal innovations and commercialise them is critical.

In creating value through internal innovation processes, there are TWO (2) processes - *cross-functional product development teams* and *facilitating integration & innovation* - that are critical in ensuring the successful implementation of internal innovations. Discuss these processes. (8 marks)

QUESTION 3 (20 MARKS)

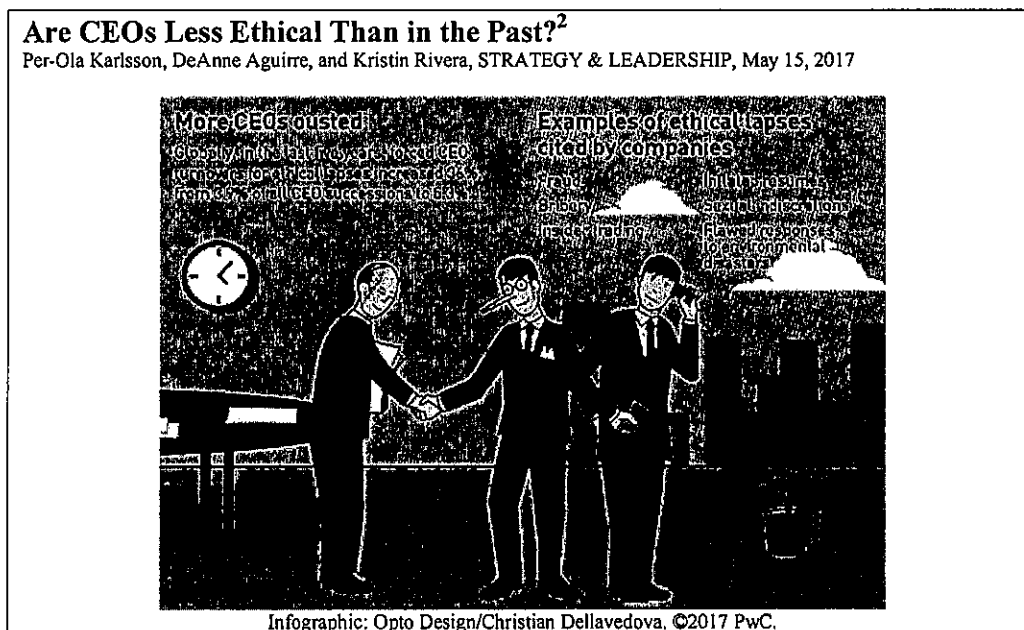
(a) The mission statement of a global cosmetics and beauty brand reads as:

Our mission is to design, produce, and distribute the world's best fragrances, perfumes, and personal care products to women, men, and children by utilising the latest technological improvements. We empower our highly creative team of researchers to develop safe, eco-friendly products that will enable our firm to profitably grow handsomely. We strive to be one of the most socially responsible firms on the planet and appreciate our employees making that happen while always following the "golden rule."

Seek ALL the mission statement components in the above. Provide a prior conceptual discussion of the components to complete your answer.

QUESTION 4 (20 MARKS)

(a) Read the following case.



² <https://www.strategy-business.com/feature/Are-CEOs-Less-Ethical-Than-in-the-Past>

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The job of a chief executive officer at a large publicly held company may seem to be quite comfortable — high pay, excellent benefits, elevated social status, and access to private jets. But the comfortable perch is increasingly becoming a hot seat, especially when CEOs and their employees cross red lines. Over the last several years, CEOs have often garnered headlines for all the wrong reasons: for misleading regulators and investors; for cutting corners; and for failing to detect, correct, or prevent unethical or illegal conduct in their organization. Some high-profile cases, involving some of the world's largest corporations, have featured oil companies bribing government officials and banks defrauding customers.

Based on the above, establish your reasons on why more CEOs are getting dismissed for ethical lapses and provide measures for prevention of such ethical lapses.

(12 marks)

- (b) An acquisition is when one firm buys a controlling, or 100 percent, interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio. It is the technique used for pursuing integration strategies. Irrespective of the complex process that it involves, acquisition remains popular.

Justify any TWO (2) reasons for any organisation wanting to do acquisition.

(8 marks)

QUESTION 5 (20 MARKS) (Topic 2) (LO1, LO2)

Nike Posts Earnings Beat As Sales Grow Abroad And Slump Domestically

Jonathan Ponciano, CONTRIBUTOR, Forbes, 21 Dec 2017

With intensifying competition from the likes of Puma and Adidas, Nike's turned attention abroad for bottom-line growth - and the new geographic focus seems to be working. Following Thursday's market close, Beaverton, Ore.-based Nike Inc. reported quarterly earnings of \$767 million, or 46 cents per share, beating analysts' expectations of 40 cents per share.

The beat represented a quarterly dip in net income of 9% year over year, which the firm attributed to a decline in gross margin and a higher selling and administrative expense. Revenue was almost \$8.6 billion, an annual increase of 5% and more than average analyst estimates of \$8.4 billion.

"This quarter, led by our Consumer Direct Offense, we accelerated international growth and built underlying momentum in our domestic business," said Mark Parker, Nike Inc.'s chairman, president and CEO, in a statement released alongside earnings. "For the back half of the fiscal year, NIKE's innovation lineup is as strong as it's ever been and we'll continue to actively shape retail through new differentiated experiences."

Revenue in Greater China (Nike's third-largest market after North America and Europe, the Middle East and Africa) continued to be a bright spot on the company's earnings report, growing 16% in the quarter and totaling \$1.2 billion.

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Nike's divisional revenues in Europe, the Middle East & Africa grew by 19% to \$2.1 billion.

Growing international revenue has coincided with a near 20% increase in Nike's stock price this year. Nike, which also owns brands Hurley and Converse, closed Thursday trading at \$64.83, up about 2%, and remained nearly stagnant in the hours following the earnings report.

Using the Five Forces Model, demonstrate your understanding of the global athletic lifestyle industry of which Nike Inc. is a participant. (20 marks)

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